

COLUMBIA UNIVERSITY
Graduate School of Business

B8301 - Autumn 1999

Prof. E. Arzac, 623 Uris
Office hrs: M & W,
10:00-12:00 noon

Advanced Corporate Finance

This course examines the main aspects of applied corporate finance by discussing real-life cases dealing with the design of financial policy, and the valuation of firms and financial instruments. In particular, the following topics are studied: venture capital financing; private placements and public offerings; U.S. and international security issues (equity and hybrid securities); private equity and LBOs; recapitalizations and restructuring; and U.S. and cross-border mergers and acquisitions.

Students are expected to have completed the first-year finance sequence B6301-B6302. They are also expected to have a firm background in accounting and be familiar with basic notions of option pricing including valuation of options using the Black-Scholes model.

Grading: Grades will be based upon three in-class quizzes (20% each) and a final examination (40%). Class participation will be logged and taken into account in borderline situations. The final exam will be based upon one of the cases discussed in class.

Readings:

Cases and readings are included in the *Course Packet: Part 1 (CP1) and Part 2 (CP2)*.

Chapters 5 to 10 of the following book contain a readable survey of applied valuation. It complements the material in CP1 and offers an alternative viewpoint on some topics:

Copeland, T., T. Koller and J. Murrin (CKM), *Valuation: Measuring and Managing the Value of Companies*, 2nd. ed., Wiley & Sons, New York, 1994.

For review of concepts studied in previous courses, particularly the material on option pricing:

R. Brealey and S. Myers (BM), Principles of Corporate Finance, 5th ed., McGraw-Hill, 1996, or S. Ross, R. Westerfield and J. Jaffe (RWJ), Corporate Finance, 4th ed., Irwin, 1996.

These books are available at the Library Reserve Desk.

Problems: The assigned problems will assist you in testing and further developing your understanding of the subject. The solutions are not to be turned in. The answers are included in the case packets. Review sessions on the assigned problems will be held on Fridays as per the schedule listed at the end of this syllabus.

| Date | Class Schedule and Assignments Topic |
|----------------------------|--|
| Sept. 8 (W) Sept.13 (M) | <p data-bbox="380 499 1203 531">Session 1-2. Financial contracting and venture capital financing</p> <p data-bbox="380 579 1442 695"><u>Objectives:</u> (a) To examine the initial stages in the financing of a company, and the roles of the venture capitalist and the private placement market. (b) To explore the form and purposes of "deals" in corporate finance.</p> <p data-bbox="380 741 992 772"><u>Readings:</u> "Financial Contracting," pp. 2-8 in CP1.</p> <p data-bbox="380 821 1040 852"><u>Problems:</u> CP1, "Financial Contracting," problems 1-6.</p> |
| Sept.13 (M) Sept.15 (W) | <p data-bbox="380 898 776 930">Session 3. Valuing acquisitions</p> <p data-bbox="380 978 1442 1052"><u>Objective:</u> To examine approaches to valuing an acquisition from the point of view of a strategic publicly traded acquirer.</p> <p data-bbox="380 1098 808 1129"><u>Case:</u> Morehouse Industries (CP1).</p> <p data-bbox="380 1178 1377 1367"><u>Readings:</u> The following readings apply to Sessions 3-5. "An Introduction to Valuation," pp. 127-141, "The Cost of Capital," pp. 157-194, and "Valuation Multiples," pp. 199-211. All in CP1. CKM, Chs. 5-10, an alternative to CP1 readings on valuation and the cost of capital</p> <p data-bbox="380 1413 1279 1486"><u>Problems:</u> The following problems corresponds to Sessions 3-5. CP1, "An Introduction to Valuation," problems 1-15</p> |
| Sept 20 (M) | <p data-bbox="380 1535 1008 1566">Session 4. Issuing securities: Initial public offers</p> <p data-bbox="380 1614 1442 1730"><u>Objective:</u> To examine the new issue underwriting process starting with the company's decision on whether or not to become a public company and the selection of the underwriter.</p> <p data-bbox="380 1776 935 1808"><u>Case:</u> CML Group - Going Public (A) (CP1).</p> |
| Sept.22 (W) | <p data-bbox="380 1850 976 1881">Session 5. Issuing securities: Implementation</p> |

Objective: Deciding the size and price of an initial public offering.

Case: CML Group - Going Public (B) (CP1).

| Date | Topic |
|--|---|
| Sept.27 (M) | Session 6. Quiz 1 on valuation and IPOs (positively no make ups) |
| Sept.29 (W) Oct. 4 (M) | Session 7-8. Cross-border offerings <u>Objectives</u> : (a) To assess the interrelationship between the international competitiveness of a company and its cost of capital. (b) To develop approaches to valuing emerging market companies. <u>Case</u> : Petöfi Printing Company (CP1) <u>Reading</u> : "Financing in the Global Capital Market," pp. 219-245, and "Valuation of Firms with Changing Leverage," pp. 257-260, both in CP1. |
| Oct. 6 (W) Oct. 11(M) Oct. 13(W) | Sections 9-10. Private equity and leveraged transactions <u>Objectives</u> : How to finance a leveraged buyout and estimate the return to the suppliers of capital. Determining the debt capacity of a leveraged transaction. <u>Case</u> : Morehouse Industries (CP1). <u>Readings</u> : "Debt Capacity," pp. 99-122, "Leveraged Buyouts and Recapitalizations," pp. 137-145, and "On the Capital Structure of Leveraged Buyouts," pp. 163-171 (skip sections I and II), all in CP2. <u>Problems</u> : CP2, "Debt Capacity," problems 1, 5 and 6. "Leveraged Buy-Outs and Recapitalizations," problems 1-4. |
| Oct. 18 (M) | Section 12. Quiz 2 on LBO financing and valuation (positively no make-ups) |
| Oct. 20 (W) Oct. 25 (M) | Section 13-14. Financial Restructuring |

Problems: CP2, "Merger and Acquisitions," pp. 304-308, problems 1, 4-7.

Nov.22 (M) Sessions 21-24. **Strategic mergers**

Nov.29 (M)

Dec. 1 (W) Objectives: (a) The role of a merger policy in competitive strategy. (b) Recent developments in offer structures. (c) Valuation approaches.

Dec. 6 (M)

Readings: "The Merger and Acquisition Process," pp. 261-272, in CP2.

Cases: Borland's Acquisition of Ashton-Tate (CP2).

Pirelli-Continental (CP2)

Review Sessions

To be held on Fridays: 10:30 - 12:00 noon

| <u>Problems</u> | <u>Date*</u> |
|---|--------------|
| 1. Financial contracting | Sept. 17 |
| 2. Valuation | Sept. 24 |
| 3. Review of Quiz 1 answers | Oct. 1 |
| 4. LBO and recapitalizations | Oct. 8 |
| 5. LBO and recapitalizations (continuation) | Oct. 15 |
| 6. Review of Quiz 2 answers | Oct. 22 |
| 7. Option problems | Oct. 29 |
| 8. Option problems (continuation) | Nov. 5 |
| 9. Percs design assignment | Nov. 12 |
| 10. Review of Quiz 3 answers | Nov. 19 |
| 11. M&A problems | Dec 3 |

*Room number and dates to be confirmed in class.

